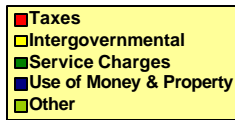
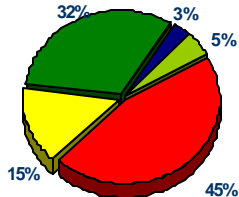


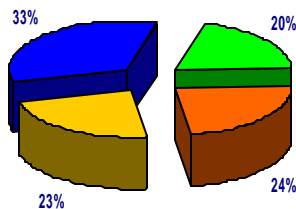
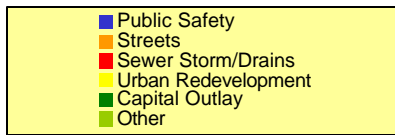
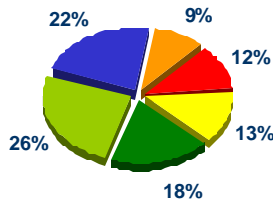


City of Belmont Budget Brief FY 2003

Where Does the Money Come From?



Where Does the Money Go?



Message From the City Manager

Honorable Mayor and Members of the Council,

I am pleased to present for your consideration the FY2003 Proposed Budget. The recommended Budget is balanced with current revenues equaling or exceeding current expenditures. The projected General Fund balance of \$2.4 million exceeds the minimum policy requirement of \$2 million, but falls short of the targeted reserve level of 20% of projected expenditures, or \$2.8 million.

In financial terms, FY2003 is shaping up to be one of the most challenging the City has faced in over a decade. Briefly, those challenges come from the long range financial forecast which indicates the need for a permanent corrective action in the range of \$.75 million, the threat of continued economic weakness and a potential state takeaway. These matters will be discussed in greater detail later in this brief.

In general, the FY2003 Budget can be described as policy driven, restrictive in growth and capital intensive. Performance budgeting debuts in this Budget. Significant changes to the format and look of the document were made to shift focus towards policy driven service levels. Restrictive growth instructions were given and followed by departments. Finally, continued focus on capital is maintained with \$20 million allocated for improvements.

The operating budget is restrictive on growth. Modification to employee compensation, generally 3%, have been made in accordance with existing memorandums of understanding or based on management's settlement offers where negotiations are underway.

Message From the City Manager (continued)

The proposed Budget contains no new positions and existing services and service levels have been maintained. 0% growth in the supplies and services accounts (with some exceptions) were imposed. Highlights of activities that are planned for the coming year are contained in the "Department Initiatives" section, later in this brief.

The proposed capital budget for FY 2003 includes \$20.1 million in projects, reflecting a continuation of the emphasis on capital spending of recent years. Highlights include the following projects:

- \$4.9 million for projects in the Los Costanos Project Area of the Redevelopment Agency.
- \$2.9 million for a variety of street improvements; staff will be discussing the process for prioritizing the use of those funds with the RDA Board/Council concurrently with consideration of this Budget
- \$5.4 million (of the total \$6.6 million) for the Police Facility Project
- \$1.2 million for Low and Moderate Income Housing projects; again, staff will be discussing the process for prioritizing the use of those funds with the RDA Board

This year's projects are part of the City's 5-year Capital Improvement Program (CIP), which totals over \$62 million.

City budgets are dynamic and subject to outside forces. This means that more often than not the financial position of one year does not necessarily reflect future years. An important tool to use in addressing this concern is the financial forecast. As can be seen later, General Funds are forecasted to go below the minimum policy level of \$2,000,000 in FY2004 and continue a precipitous decline thereafter. This forecast is based on the assumption that operating costs will increase with estimated inflation of 4% annually and that revenue follows a parallel course. Modifications have been made to expenditure and revenue forecasts in those cases where it is known that they do not behave in accordance with the general economy.

Why does the forecast predict a rapid decline in the financial position of the City? The answer is multifaceted. The effects of the recession appear to have structurally altered many revenue sources. Consequently, several revenue assumptions have been lowered. A major contributing factor is the loss of a significant sales tax source. In addition, labor costs, and more specifically public safety labor costs, have been increasing more rapidly than inflation. Furthermore, subsidies to some fee-supported programs continue to increase.

What is the recommended solution? As depicted on the final page of the projection, actions in FY2003 amounting to \$750,000 annually would be needed to maintain a 20% operating reserve throughout the five-year projection timeframe. This can come from any combination of revenue increases and expenditure decreases affecting these funds. If cost reductions alone were pursued this would result in a 4.5% reduction in operating costs. While this reduction is significant, ultimately much more severe action would be required if action is not taken.

There are other threats not reflected in the forecast. Certain City services are under funded at the present time, particularly capital improvements for roads. Not only are these CIP projects under funded, but the funding which does exist is virtually all grant funding, an unreliable source. Additionally, at the present time the City is making no contribution to the Public Employee Retirement System (PERS) due to extraordinary investment performance. Long term, however, it is unrealistic to assume this will continue.

As stated above, FY2003 is shaping up to be one of the most fiscally challenging faced by the City. Those challenges include:

- The long-range financial forecast identified a potential \$.75 million dollar, ongoing corrective action necessary to achieve and maintain the 20% targeted reserve level throughout the five-year projection timeframe. Steps should be taken in FY2003 to achieve balance by FY2007. Deferred action significantly increases the amount of annual correction required.

Message From the City Manager (continued)

•The local economy continues to be weak, in fact, recessionary. The Budget assumes continued softness throughout most of FY2002 with modest recovery beginning in FY2003. Should the economy worsen or continue to be weak, further corrective action from that already taken at FY2002 Mid Year will be necessary.

•The most significant challenge, and uncertainty, facing the City is a potential State takeaway. For some time now, the threat of a State takeaway, in the form of a Motor Vehicle License Fee reduction, has been present. For Belmont, the exposure is estimated between \$.9 - \$1.4 million annually. The takeaway may not take form in this manner or for this amount; it seems likely, however, that the State will take away some local revenue to address their own budgetary problem. Furthermore, it is unlikely the City would receive any advance notice if or when any action is taken. Clearly, should it occur, steps will need to be taken to address the matter.

Addressing these challenges has been a focus of management and staff and efforts to reduce the size of the FY2003 Budget have been taken. Nonetheless, it is wise to begin early with the necessary planning to assure a strong long-term financial position for the City. A typical response is across-the-board cuts, freezing open positions and the like. Such actions pay little attention to service priorities and can have illogical impacts on an organization. It is suggested that a more orderly and productive approach similar to that followed at the Mid Year Review be pursued. This includes:

1. Targeted studies of where costs may be able to be reduced without diminishing present levels of service.
2. A review of potential new revenue opportunities.
3. The development of alternative service levels for each operation affecting the General Fund bottom line. This would involve each affected department developing several options describing the new level of service and impact on the community, and the cost reduction that would

result. If necessary, Council could then select service level reductions it wished to pursue.

It is important to give staff the time needed to study the above matters. Therefore, it is suggested that this effort be launched early in FY2003 with the results and recommendations forwarded to Council for study no later than the Mid Year Review in early spring. This should provide adequate time for incorporation in the proposed FY2004 and later budgets.

Belmont's financial policies state the City intends to recover, where appropriate, the full cost of providing goods and services. Implementing full cost recovery in these areas is paramount towards achieving the results outlined in this budget. As part of this effort, the following fee related initiatives are contemplated:

- A comprehensive policy on recreation fees, including program subsidization, will be completed for implementation by FY2004.
- Development Services should achieve full cost recovery. The cost of service has increased and Council will need to consider increasing fees accordingly.
- A comprehensive study of development impact fees will be undertaken with a recommendation planned for Council's consideration with adoption of the FY2004 Budget.

In summary, while the City is in sound financial condition today, efforts must be taken to maintain that position in the future. These actions may be challenging to take and implement, but Belmont is not alone. Most cities are confronted by the same, or worse, conditions.

I would like to express my appreciation to staff, particularly the Finance Department, for their efforts in preparing the Proposed FY2003 Budget.

Jere A. Kersnar
City Manager

Debut of Performance Budgeting

Council and the community will see implementation of performance budgeting for the first time in this budget. Four service areas are on the new format in this budget: Finance, Police, Parks and Open Space, and Facility Services. The remainder of the operating budget is shown in the traditional format and will be converted to performance budgeting for the FY2004 budget.

Performance budgeting is part of the broader Service Delivery Initiative (SDI), the goal of which is to make Belmont more of a customer-driven, results-oriented organization. It will enable the City Council and staff alike to focus on outcomes and results, rather than dollars and inputs. SDI will also help clarify the appropriate roles of Council and staff and bring about alignment of policies, procedures and resource allocations.

Performance budgeting entails the restructuring of the City's operations into budgetary Service Areas and Centers. Each Service Area and Service Center is structured to answer three fundamental questions: *Why, How and How Well*. Each has an overall mission or purpose statement and a series of specific performance measures. The mission is intended to be a high-level outcome or statement of the desired results. The measures are intended to establish accountability for specific service levels.

Traditionally, municipal governments allocate resources based on inputs and line-items. That changes with performance budgeting. The focus now is on defining the level and quality of services to be provided for a given sum of funding. With performance budgets, detailed line-items are no longer provided. Instead, a bottom line budget and staffing level is shown along with the mission and measures. In the first year of operation, the measures include an "X" for the targeted service level. This will be filled after one year and the actual performance will be the baseline for future evaluation.

Budget Assumptions



Local Demographics

- *Population: 0.3% increase for Belmont*
- *Housing: 0.5% increase for Belmont*
- *Inflation: 3% increase for the Region (Long term 4%)*
- *Job growth: -1.0% decrease for the County*



Revenues

- *Revenues: Declines in base with most key categories*
- *Property taxes: Up 4.98% for Belmont*
- *Sales Taxes: On lower base, up 4% for Belmont*
- *Interest rates: 2.5% for investments*



Operations and Capital Improvements

- *Personnel costs: 3.0% cost of living adjustment for Belmont*
- *Supplies and services costs: 0% growth with exceptions for fuels, utilities, insurance, etc.*
- *Capital program: \$21.1 million allocated*

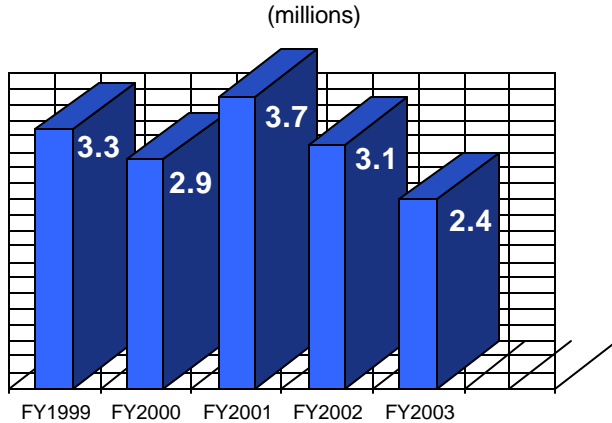


State Actions

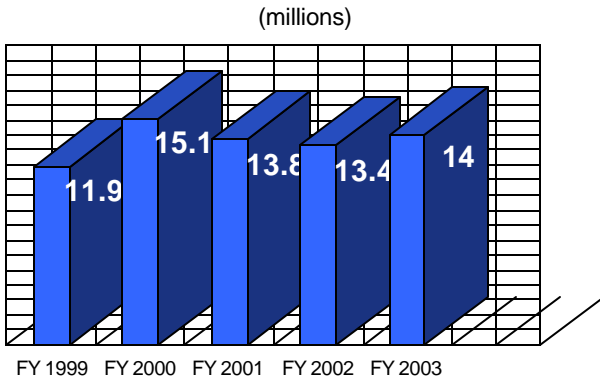
- *One time funds excluded*
- *No further takeaways programmed*
- *\$100 thousand in supplemental law enforcement funds anticipated*

Revenues - All Funds

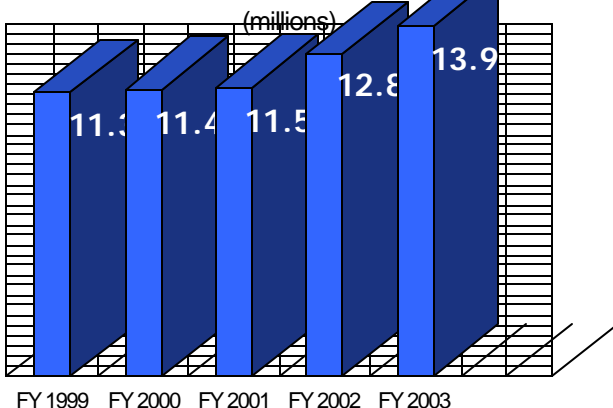
General Fund Balance Trends



General Fund Revenue Trends (excluding transfers)



General Fund Expenditure Trends (excluding transfers)



Total revenues for FY2003 are estimated at \$39.3 million. General Fund revenues are estimated at \$14.0 million, \$7.3 million come from sales, property and other taxes. General Fund revenues support basic City services including public safety, public works, parks & recreation, and general government operations. Tax growth has retreated due to the recession. Other fund revenues include \$4.5 million in property taxes to support fire protection services, \$3.3 million in revenues supporting street maintenance and improvement activities, and \$4.3 million for sewer/storm drain operations and construction.

Expenditures - All Funds

Total expenditures for FY2003 are estimated at \$58.0 million. General Fund expenditures include \$7.1 million for public safety, \$2.4 million for culture and recreation, and \$4.3 million for general government operations. Other special fund expenditures include \$4.8 million for fire protection services, \$4.1 million for streets, \$5.4 million for Police Facility, \$1.6 million for Ralston/101-Direct Access Project and \$2.5 million for sewer/storm drains operations and capital projects. The Redevelopment Agency anticipates up to \$6.1 million available for downtown projects, neighborhood programs and operations.

The difference between revenues and expenditures comes from funding for capital projects which has been previously set aside.

Department Initiatives



Administrative

The Administrative Departments provide direction and support to the entire City organization. In the coming year, the City Manager's Office will focus on completing the implementation of performance budgeting, examining economic development strategies, refining the Council Priority Calendar process, and looking for other ways to further the City Council policy agenda. The Information Services Division will oversee presenting and implementing an updated Technology Master Plan and will upgrade the City's PC's. The Human Resources Department will continue to enhance City-wide training, and update the Policies and Procedures Manual. The City Clerk's Office will focus on day-to-day service delivery and preparing for the November 2002 election and a new city clerk. The Finance Department's initiatives for the coming year include: continue implementing the comprehensive municipal information system, preparation for the new financial reporting model (GASB 34), assisting in the deployment of the Service Delivery Initiative, financing the capital improvement program and pursuing grant funding for the Belmont Library.



Police Department

The Police Department will focus on five key areas : 1) Traffic: through application of the community policing philosophy, make greater use of existing resources to enhance public education and enforcement to improve the safe flow of traffic in Belmont, 2) Performance Budgeting: modify existing procedures and practices to facilitate the transition of the Police Department to the new outcome-focused system, 3) Community Policing: enhance the safety of the community by expanding crime prevention and educational services to schools, youth and seniors, 4) Safety/Emergency Preparedness: work in conjunction with other agencies in San Mateo County to acquire equipment and conduct training of staff to better respond to incidents of terrorism and 5) Recruiting and retention: Research and implement strategies aimed at increasing the retention of existing staff and improve recruiting efforts to rapidly fill vacancies with high quality staff.



Public Works

The Public Works Department will commit much of its attention to traffic on City arterial streets, traffic calming for neighborhood streets, parking availability and restrictions, and implementing the San Mateo County Congestion Relief Program - including an evaluation of the use of shuttles from homes to transit. This year the street improvement program will be a major focus of attention, with staff identifying program needs and funding alternatives for Council consideration. The commitment continues to provide a high level of maintenance to the City infrastructure, with many sewer projects underway. Support of the Permit Center, including processing development applications, encroachment permit approvals and providing customer service to the public remain very high on the list of Department activities.



Community Development

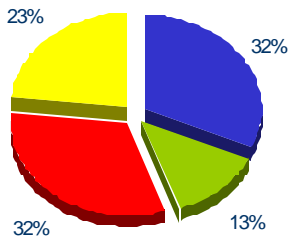
The Community Development Department will continue its efforts to enhance customer service as it refines the recently-opened Belmont Permit Center and implements other recommended improvements to the development review process. Building inspections will be expanded to afternoon hours and more plan checks will be conducted 'in-house'. To begin updating Belmont's 20-year old General Plan, the Planning Division will lead the community through a visioning process to clarify Belmont's expectations for future development. Planning staff will also propose various zoning revisions to better protect hillside from inappropriate development, improve the look of downtown and safeguard residential neighborhoods. Other high-priority projects for the year include a Specific Plan for Block 4, relocation and remodel of the Emmett House, Harbor Industrial Area annexation proposal and affordable housing development.



Parks & Recreation

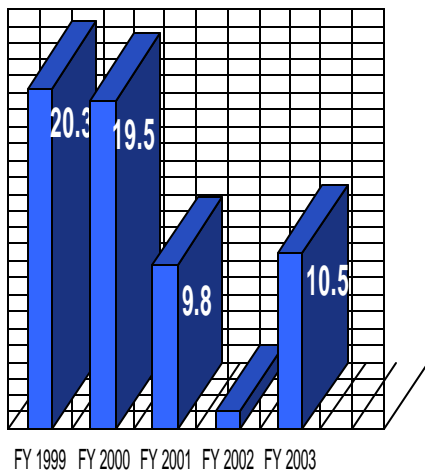
The Parks & Recreation Department will again offer a wide variety of quality activities and special events. The Twin Pines Art & Wine Festival will be held on September 21 & 22. The Certified Belmont Farmers' Market continues to be held every Sunday from mid-May through mid-November at the Cal-Train parking lot. The Parks and Open Space Division will begin implementing the new performance-based budget system, while the Recreation Division will be developing policies for recreation program and activity fees and for Art in Public Places. The City's playgrounds are scheduled to receive safety and access upgrades. The Department will continue the development and maintenance of trails in the City's unique urban open space areas.

Capital Projects by Function



■ Urban Redevelopment ■ Sewer/Storm ■ Facilities ■ Streets

Capital Outlay Trends (millions)



The City has a 5 year CIP estimated at \$62 million. Projects proposed in FY2003 total \$20.1 million. Major projects proposed are highlighted below.

RDA Capital Projects



FY2003 Budget allocates \$6.1 million for projects in the Los Costanos Project Area. The RDA Board has prioritized projects and allocated \$4 million of the \$7.6 million in redevelopment bond proceeds for projects such as utility undergrounding, facade improvements, and street improvements.

Police Facility



FY2003 Budget anticipates additional design work will take place in order to develop final plans for relocating the police department from their current location which is scheduled for demolition. Budget includes \$5.4 million of a total \$6.6 million as a placeholder for project.

Ralston/101 Interchange



Now that Belmont has completed the preliminary design and environmental work for the interchange, Redwood City will take over the reins to complete the design and construction of the project. Belmont will be a part of the project development team to assure that the needs of Belmont are met.

101/Bike & Pedestrian Bridge



Final design will be completed FY2003. Construction to begin pending funding from grants. Project will also provide integrated bikeways, improved sidewalks. In addition, traffic calming and a school safety zone will be created.

Streets



Ralston Avenue and Alameda De Las Pulgas will be upgraded. Several neighborhood streets will be overlaid.

Rebuild Fire Station 14



Construct a new \$2.3 million Fire Station 14 at the existing site with the addition of the adjoining parcel. This project is budgeted and managed by South County Fire Authority.